



DEPARTMENT OF  
**FINANCE**

ARNOLD SCHWARZENEGGER, GOVERNOR

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April 29, 2009

Mr. John P. Donnelly, Executive Director  
Wildlife Conservation Board  
1807 13<sup>th</sup> Street, Suite 103  
Sacramento, CA 95811

Dear Mr. Donnelly:

**Final Report—Audit of Wildlife Conservation Board's Propositions 12, 13, 40, and 50 Bond Funds**

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Wildlife Conservation Board's (Board) Propositions 12, 13, 40, and 50 bond funds for the period ending June 30, 2007.

Our audit concludes that the Board awarded and expended bond funds in accordance with applicable legal requirements. However, we noted a number of management and control issues requiring corrective action. The Board's response is included in the enclosed report.

In accordance with Finance's policy of increased transparency, this report will be published on our website. We appreciate the assistance and cooperation of the Wildlife Conservation Board. If you have any questions regarding this report, please contact Diana Antony, Manager, or Evelyn Suess, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA  
Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. Dave Means, Assistant Executive Director, Wildlife Conservation Board  
Ms. Debra Townsend, Assistant Executive Director, Wildlife Conservation Board  
Ms. Roxanne Woodward, Budget Officer, Wildlife Conservation Board  
Mr. Bryan Cash, Deputy Assistant Secretary, Resources Agency  
Ms. Julie Alvis, Deputy Assistant Secretary, Resources Agency

# AN AUDIT OF BOND FUNDS

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## Wildlife Conservation Board Propositions 12, 13, 40, and 50



*Department of Fish and Game, Gray Lodge Wildlife Area, Butte and Sutter Counties  
Source: Courtesy of the Wildlife Conservation Board*

Prepared By:  
Office of State Audits and Evaluations  
Department of Finance

080540060

December 2008

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Final reports are available on our website at <http://www.dof.ca.gov>.

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## EXECUTIVE SUMMARY

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In response to the Department of Finance's (Finance) bond oversight responsibilities, we have audited the Wildlife Conservation Board's (Board) funding under Propositions 12, 13, 40, and 50 as of June 30, 2007. The primary objectives of this audit were to determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and to determine if the Board had adequate project monitoring processes in place.

The Board awarded bond funds in compliance with applicable legal requirements. However, the following observations were made:

The Board adopted new project monitoring policies in 2006; however, not all program guidelines have been updated and earlier grant agreements may not allow the Board to adequately monitor projects. In addition, the Board lacks procedures for reviewing a grantee's financial capability for long-term monitoring of land acquisitions. By updating its program guidelines and continuing its efforts to address earlier grant agreements, the Board will improve monitoring of its acquisitions. In addition, by developing and implementing applicable criteria for evaluating grantees' financial condition, the Board can better assess whether a grantee has sufficient resources for long-term stewardship. We recommend the Board update all program guidelines, continue its efforts to monitor earlier grant agreements, and review grantees' ability for long-term stewardship of land acquired.

For restoration and development projects, the Board does not consistently apply its own established procedures and criteria when evaluating and recommending potential projects. The Board's restoration programs have specific application criteria to determine the significance of a potential project; however, the Board does not always obtain completed applications and it inadequately documents potential projects pre-award site visits, scientific basis, and CEQA compliance. The purpose of a merit review is to provide an independent assessment of the technical and scientific merits of an application or proposal. Maintaining documentation of its application review would allow the Board to better administer projects, and also provide a clear basis for selecting projects. We recommend the Board require all applicants to submit a complete application or proposal. In addition, the Board should adequately document the decisions made based on its site visits and review of scientific evidence and compliance with environmental regulations.

Additionally, the Board does not have established written project monitoring procedures and does not conduct post-closure site visits. Although the Board may rely on other state agencies to conduct some of the monitoring activities, there is no documentation of these visits to indicate the status or condition of the sites. Once a project has been closed, the post-monitoring requirement is vital to ensure the project is being adequately maintained as specified in the grant's management plan. By formally developing and implementing monitoring procedures and documenting its monitoring related activities, the Board's project oversight can be improved. We recommend the Board establish monitoring policies and develop project monitoring tools to ensure consistent and adequate documentation.

We discussed these observations and recommendations with the Board on December 9, 2008. By developing a plan to address the observations and recommendations noted in this report, the Board's administration and oversight would be strengthened.

# BACKGROUND, SCOPE, AND METHODOLOGY

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## **BACKGROUND**

Between March 2000 and November 2002, California voters passed four bond measures totaling \$10.1 billion. The Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (Proposition 12) and the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act (Proposition 13) were passed on the March 2000 ballot. The California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40), and the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 (Proposition 50) were passed on the March and November 2002 ballots, respectively. These propositions authorized the sale of bonds to finance a variety of resource programs. Administered by a number of state departments, agencies, boards, and conservancies, the proceeds from these bonds support a broad range of programs that protect, preserve, and improve California's water and air quality, open space, public parks, wildlife habitats, and historical and cultural resources. Bond proceeds are expended directly by the administering departments on various capital outlay projects, and are also disbursed to federal, state, local, and nonprofit entities in the form of grants, contracts, and loans.

### **Wildlife Conservation Board**

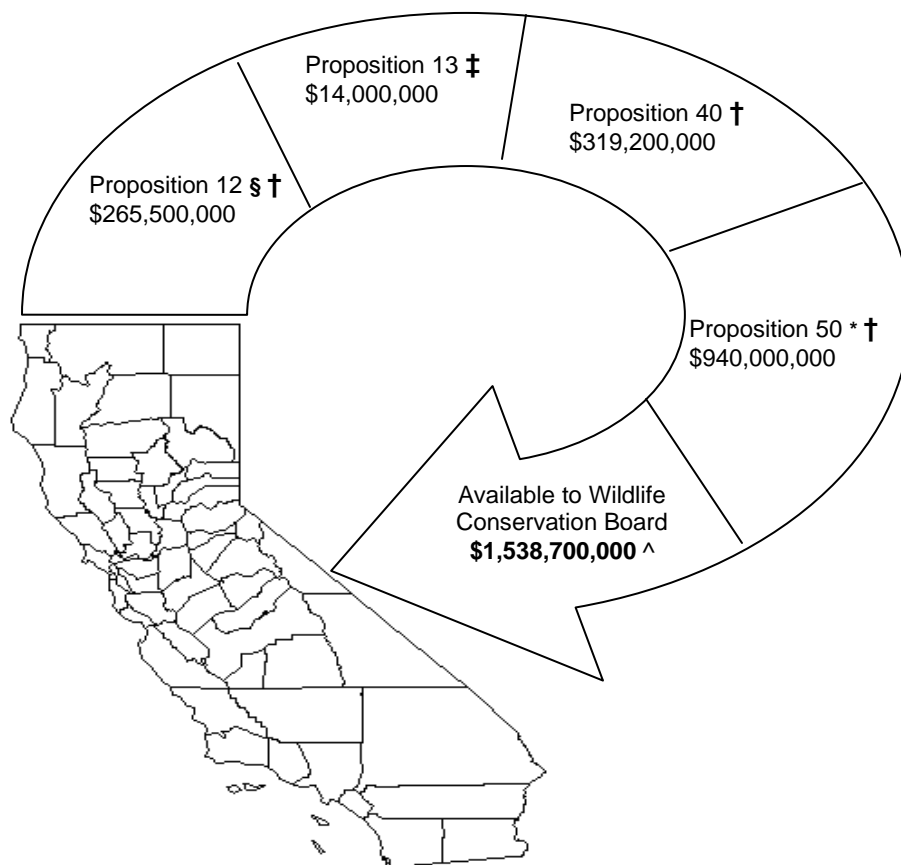
The Wildlife Conservation Board (Board) was created in the Wildlife Conservation Act of 1947 (Fish and Game Code Section 1300, et seq.) and placed with the Department of Fish and Game (Fish and Game). The Board Members consists of the President of the Fish and Game Commission, the Director of the Department of Fish and Game, and the Director of the Department of Finance as voting members. In addition, a Legislative Advisory Committee was established consisting of three members of the Senate and three members of the Assembly, which provides legislative oversight in a non-voting capacity to the Board.

The Board is a separate and independent body with authority and funding to carry out acquisition and development programs for wildlife conservation. Its mission is to investigate, study, and determine what areas within the state are most essential and suitable for wildlife production and preservation, and will provide suitable recreation. The Board also ascertains and determines what lands within the state are suitable for game propagation, game refuges, bird refuges, waterfowl refuges, game farms, fish hatcheries, game management areas, and what streams and lakes are suitable for, or can be made suitable for, fishing, hunting, and shooting.

The Board administers nine various programs (as detailed in Appendix A) with an average staff size of 21 positions consisting of executive management, program managers, land agents, and administrative staff. Between fiscal years 2002-03 to 2006-07, the Board's annual expenditures ranged from \$74.7 million to \$495.6 million. During the same five-year period, proposition bond monies accounted for 57 percent to 92 percent of total annual expenditures.

In total, the Board received \$1.54 billion in bond funds (as shown in Figure 1) from Propositions 12, 13, 40, and 50. As of June 30, 2007, \$1.15 billion was awarded to recipients for projects with \$913 million in expenditures. Although not included in Figure 1, the Board was also allocated \$440 million from the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act (Proposition 84), which was passed in November 2006. This audit does not include a review of Proposition 84 funds as no expenditures were made as of June 30, 2007.

**Figure 1. Propositions 12, 13, 40, and 50 Funds Allocated to the Board as of June 30, 2007**



**Source:** Propositions 12, 13, 40, and 50 Bond Acts.

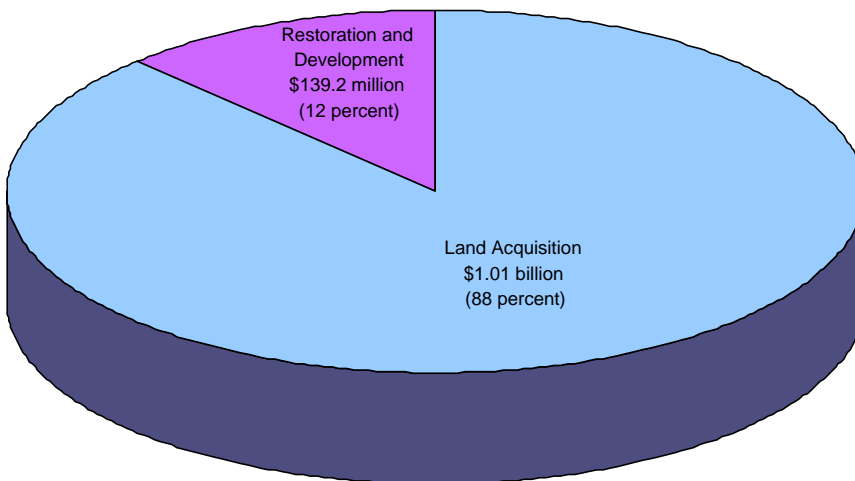
**Notes:**

- § Of the \$265.5 million, \$5 million was transferred to the Oak Woodlands Conservation Fund (Fund 8011) per Proposition 12.
- ‡ A specific allocation amount for the Board was not identified. The amounts are contained in the Department of Water Resource's (DWR) allocation, and the Board's appropriations are deducted from DWR's inappropriated allocation balance per Proposition 13.
- \* As of June 30, 2007, a total of \$76.8 million has been approved for transfer to the Habitat Conservation Fund (Fund 0262) from Proposition 50 per the Budget Acts for the acquisition of deer and mountain lion habitat, rare and endangered species habitat, wetlands, riparian and aquatic habitat, open space, and other environmental purposes.
- † As of June 30, 2007, a total of \$1.4 million, \$2.6 million, and \$11.8 million have been approved for transfer from Propositions 12, 40, and 50, respectively, to the Wildlife Restoration Fund (Fund 0447) for support costs per the Budget Acts.
- ^ Does not include funds allocated to the San Joaquin River Conservancy (SJRC). The Board is responsible for administering projects awarded by SJRC.

## Bond Funded Programs

Bond funds have been distributed between the Board's two core areas of land acquisition and habitat restoration and development, which are comprised of nine programs (see Appendix A for a list of programs). Of the \$1.15 billion awarded as of June 30, 2007, \$1.01 billion (88 percent) was awarded for 254 acquisition projects and \$139.2 million (12 percent) was awarded for 107 habitat restoration and development projects, as shown in Figure 2.

**Figure 2. Proposition Funds Awarded by the Board by Core Area as of June 30, 2007**



**Source:** The Board's project status information.

## Acquisition-Related Programs

The Board's acquisition-related programs are comprised of eight different programs as outlined in Appendix A. The Land Acquisition Program is the general acquisition program that allows the Board to acquire land and waters "suitable for recreation purposes and for the preservation, protection, and restoration of wildlife habitat." As of June 30, 2007, the Board has awarded 75 percent (\$758 million of \$1.01 billion), of total acquisition projects under the general Land Acquisition Program. According to the Board, this program is a "catch-all" for projects that may not necessarily meet the criteria and/or specific requirements of other programs. The other seven acquisition-related programs such as the Oak Woodlands Conservation and the Rangeland, Grazing Land, and Grassland Protection programs have specific purposes and requirements.

The Board acquires real property or rights in real property on behalf of Fish and Game and through grants to other governmental entities or nonprofit organizations. In general, projects are initiated and evaluated by Fish and Game for recommendation to the Board for funding. Subsequent to Board approval, the Board acts as the land agent and carries out the acquisition of approved projects. All acquisitions are made from a willing seller pursuant to a fair market value appraisal as approved by the Department of General Services.



### ***Restoration and Development Programs***

As noted in Appendix A, the Board's restoration and development goals are carried out under six different programs. The Habitat Enhancement and Restoration Program is a general program that considers projects that may not meet the criteria and/or specific requirements of the other programs. The other five restoration and development programs such as Inland Wetland Conservation, Oak Woodlands Conservation, and Public Access programs have specific purposes and/or requirements for their respective programs.

Eligible restoration and enhancement projects awarded by the Board may include restorations of fisheries, wetlands, riparian habitats, native grasslands, and forests. Eligible public access projects may include the development of facilities in cooperation with local agencies for public access to hunting, fishing, or other wildlife-oriented recreation. Eligible restoration and public access projects must provide for the long-term maintenance of the restored and/or enhanced habitat. Eligible applicants for projects include nonprofit conservation organizations and federal, state, or local governmental agencies. Restoration and public access projects may be located on Fish and Game-owned lands or other lands.

### ***San Joaquin River Conservancy Projects***

The Board also administers the San Joaquin River Conservancy's (SJRC) Propositions 12, 13, and 40 bond funds. SJRC reviews and selects its own projects, while the Board is responsible for drafting the grant agreement, reviewing and approving reimbursement requests for payment, and performing close-out procedures for the projects. As of June 30, 2007, \$30.8 million was awarded to 26 projects (8 land acquisitions and 18 restoration and development projects) towards the San Joaquin River Parkway Master Plan. As of June 30, 2007, \$21.5 million was expended.

### **SCOPE**

The audit was conducted to determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and to determine if the Board had adequate project monitoring processes in place.

We reviewed projects awarded under each of the Board's core areas of acquisition and habitat restoration and development. Our audit included a review of the Board's policies and procedures for awarding and disbursing bond funds, including project monitoring and close-out efforts in practice. However, because the Board's acquisition related projects are generally initiated and evaluated by Fish and Game prior to funding recommendations, we limited our review to the Board's process and procedures. We did not review the Fish and Game's process for evaluating or selecting projects for Board approval. We will review the process as part of a future audit of the Fish and Game's bond funds.

In addition, our review included SJRC's bond funded projects. SJRC reviews and selects its own projects, but the contracting, fiscal monitoring, and project close-out phases are performed by the Board. Therefore, we limited our review of these projects to the contracting, fiscal monitoring, and closing-out processes performed by the Board. The review of SJRC's selection process will be addressed in a separate Department of Finance bond audit report.

The audit did not include an assessment of the bond authorization, issuance, and sale processes, or an examination of the efficiency or effectiveness of program operations. Further,

no assessment was performed for the reasonableness of the land acquisition costs or the conservation value of the land acquired or projects completed.

## **METHODOLOGY**

To gain an understanding of key legal provisions and established criteria, we reviewed the applicable bond acts, the Board's grant management policies and procedures, and program guidelines, including legal provisions and regulations. We also interviewed executive management and key staff directly responsible for administering bond funds to determine how the established policies and procedures were implemented under the various programs. To assess whether the Board awarded bond funds in accordance with the identified legal requirements and established criteria, we tested a sample of projects to ensure the laws and criteria were followed when the awards and expenditures were made.

In order to select a sample, we reviewed the project status tracking process to assess the reliability of the information. Based on our review, we determined the data to be sufficiently reliable for audit purposes. We judgmentally selected 38 (10 percent) of the 387 projects awarded as of June 30, 2007. The 38 projects selected represent projects from the acquisition programs and restoration and development programs and include a variety of recipients such as federal, state, local governments, and nonprofit organizations. Using the sample noted above, we also visited seven grant recipients to determine whether they complied with the grant agreement requirements.

To assess whether the Board expended bond funds in accordance with the identified legal requirements and established criteria, we tested a sample of projects to ensure the laws and criteria were followed when expenditures were made. We reviewed the aforementioned sample to verify that expenditures were recorded and reported accurately in the Board's accounting system and financial statements. We also reviewed the reasonableness of the Board's administrative expenses charged to bond funds.

To determine whether the Board had adequate project monitoring processes, we reviewed and gained an understanding of the Board's policies and procedures for overall project management, including monitoring, reimbursement of expenditures, and project close-out. We also interviewed the Board's management and staff to determine how the policies and procedures were implemented. Using the sample noted above, we tested the projects to determine if they were adequately monitored to ensure the projects stayed within scope and cost.

We held multiple discussions with the Board throughout our audit fieldwork to discuss and provide specific project review details. Recommendations were developed based on our review of documentation made available to us and interviews with the Board's management and key staff directly responsible for administering bond funds. This review was conducted during the period February 2008 through December 2008.

This audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. In connection with this audit, there are certain disclosures required by *Government Auditing Standards*. The Department of Finance is not independent of the Board, as both are part of the State of California's Executive Branch. As required by various statutes within the California Government Code, the Department of Finance performs certain management and accounting functions. These activities impair independence. However, sufficient safeguards exist for readers of this report to rely on the information contained herein.

The Wildlife Conservation Board's (Board) awarded and expended bond funds in compliance with applicable legal requirements. The following are observations for each core area.

### ***Acquisition-Related Programs***

The Board acquires real property or rights in real property on behalf of the Department of Fish and Game (Fish and Game) and through grants to other governmental entities or nonprofit organizations. According to the Board, it refers to Fish and Game's project priorities and selection criteria for conservation acquisitions. Therefore, the project awarding and evaluation process will be reviewed in a separate Fish and Game bond audit to be performed at a later date. However, as of our audit fieldwork, Fish and Game had not established statewide goals and priorities for conservation acquisitions. According to Fish and Game, a plan, entitled *Areas of Conservation Emphasis*, was in development with completion anticipated by June 2008. The project awarding process, completed *Areas of Conservation Emphasis* plan, and coordination of land acquisition activities between the Board and Fish and Game will be reviewed during the Fish and Game bond audit to be performed at a later date.

The following observations relate to the Board's land acquisition activities:

### **Observation 1: Monitoring of Acquisitions Could Be Improved**

The Board has made improvements in monitoring land acquisitions; however, further implementation improvements could be made. In August 2006, the Board adopted new monitoring policies for grants and conservation easements, specifically, revising grant agreement monitoring language and establishing minimum monitoring standards. However, several program guidelines have not been updated with the revised monitoring policies. Also, since grant agreements issued before 2006 do not include the new monitoring provisions, the Board should develop a plan of action to address these older grants. In addition, the Board has not established criteria for ensuring grant recipients provide evidence of their ability to perform long-term monitoring.

- *Not all program guidelines have been updated.* Although monitoring guidelines were adopted in August 2006, program guidelines have not been updated for four out of the eight existing programs including its largest program, the Land Acquisition Program. Program guidelines were developed to inform applicants, grantees, and stakeholders of the Board's policies and procedures and to ensure they are applied consistently. However, as shown in Figure 3, the Board's monitoring requirements are not consistently addressed in each of the program guidelines.

**Figure 3. Monitoring Requirements Vary Among the Land-Acquisition Program Guidelines**

Program	Year Established	Program Guidelines
Land Acquisition Program	1947	No monitoring language
Habitat Enhancement and Restoration	1947	No monitoring language
Inland Wetlands Conservation Program	1990	No monitoring language
California Riparian Habitat Conservation Program	1991	No monitoring language
Natural Heritage Preservation Tax Credit Program	2000, 2005	Board will conduct annual reviews of properties
Oak Woodlands Conservation Program	2001	Project may be monitored for the term of the agreement or lease
Rangeland, Grazing Land and Grassland Protection Program	2002	Easement area to be monitored at least annually and site access allowed not less than once in any period of three calendar years
Forest Conservation Program	2007	Easement area to be monitored at least annually and site access allowed not less than once in any period of three calendar years

- *Older grant agreements do not address the Board's recently established monitoring policies.* Since the grant agreements issued prior to the August 2006 Board policy do not contain monitoring provisions, the Board should develop a risk-based plan to manage these older grants. Between 2001 and 2007, the Board executed 141 of these older grants totaling \$304 million in bond funds with third-party-nonprofit partners for fee title and conservation easement acquisitions. However, these grants do not require a Baseline Condition Report,<sup>1</sup> Minimum Standards for Monitoring Protocols,<sup>2</sup> routine site visits, and annual reporting although the Board is required to monitor these properties for 25 years or in perpetuity. The Board acknowledges the issue and has recently assigned a staff to contact the grantees seeking cooperation to monitor those grants.
- *Review of grantees' ability for long-term monitoring is not performed.* The Board does not review or require grantees to report on their fiscal capacity prior to awarding grant funds or as part of its project monitoring process. Historically, the Board has been acquiring land in fee title for the past 60 years and conservation easements for the past 30 years. Within the past two decades, the Board has increased the number of fee title acquisitions and conservation easements through grants to third-party organizations (e.g., non-profit regional and local land trusts, counties, and special districts). These grantees or "land trusts" are generally responsible for continued stewardship of the lands over long periods, typically in perpetuity. According to the Land Trust Alliance's *Land Trust Standards and Practices*<sup>3</sup>, a land trust must manage its finances and assets to ensure a secure and lasting source of dedicated funds is sufficient to cover the cost of stewarding land over the long term.

<sup>1</sup> The Baseline Condition Report describes the condition of the property at acquisition.

<sup>2</sup> The Minimum Standards for Monitoring Protocols describe the type of information to be included in status reports from third party partners.

<sup>3</sup> While the *Land Trust Standards and Practices* (revised 2004) are designed primarily for non-profit, tax-exempt land trusts, they also provide important guidance for any organization or government agency that holds land for the benefit of the public.

However, the Board does not evaluate a grantee's ability to continue operations into the future nor does it have a process to proactively identify a grantee that can no longer provide proper stewardship. Other state agencies have established fiscal criteria in their grant applications wherein grantees are required to identify the fiscal resources to be used to accomplish the project's management objectives. In addition, grant management "promising practices" articulated by members of the Grant Accountability Project<sup>4</sup>, includes assessing an applicant's ability to achieve grant objectives.

By updating its program guidelines and continuing its efforts to address earlier grant agreements, the Board will improve monitoring of its acquisitions. In addition, by developing and implementing applicable criteria for evaluating grantees' financial condition, the Board can better assess whether a grantee has sufficient resources for long-term stewardship.

## **Recommendations**

- Update all program guidelines with the August 2006 adopted policies and develop procedures to ensure program guidelines are updated.
- Develop a risk-based monitoring plan for grant agreements that lack the August 2006 monitoring policies.
- Review grantee's initial financial stewardship plan to determine if available funds are reasonable for long-term monitoring. In addition, periodic reports on the grantee's fiscal capacity to monitor and manage the land may be employed.

## **Other Issue Identified**

As part of our review to determine whether bond funded expenditures are accurately recorded and reported, we reviewed the Board's accounting procedures for properties acquired. Because Fish and Game performs the accounting functions for the Board, our review focused on Fish and Game's accounting transactions and records related to the Board's acquisitions. Based on the review, we found one acquisition for \$8.01 million inadvertently recorded in the wrong fund. As a result, the same incorrect information has been submitted to the Department of General Services for its statewide property inventory.

Upon further review, the error occurred because Fish and Game did not properly reconcile its property inventory to its general ledger. In June 2008, the Bureau of State Audits reported Fish and Game's inadequate procedures for accounting and reporting its real property and recommended it reconcile amounts reported for fixed assets. At the conclusion of our audit, Fish and Game indicated that the transaction had been corrected and resolved. We will follow-up on this issue during the upcoming bond audit of Fish and Game. We recommend that land acquired be properly recorded and property inventory be reconciled with the general ledger.

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<sup>4</sup> A collection of federal, state, and local audit organizations tasked by the Comptroller General of the United States' Domestic Working Group to offer suggestions for improving grant accountability.

## Restoration and Development Programs

### Observation 2: Established Procedures are Inconsistently Applied and Project Reviews are Not Adequately Documented

Established awarding policies and procedures are inconsistently applied and project merit reviews are not adequately documented. Awarding criteria, including those listed in Figure 4, provides the basis for a project's merit review. The Board's awarding process includes, but is not limited to, reviewing applications or proposals, conducting pre-award site visits, obtaining project scientific basis, and ensuring California Environmental Quality Act (CEQA)<sup>5</sup> compliance. This would allow the Board to conduct a thorough, consistent, and objective review of applications based on established criteria.

Of the 17 projects<sup>6</sup> reviewed, the Board did not always obtain completed applications and inadequately documented the

proposed projects pre-award site visit, scientific basis, and CEQA compliance. Specifically:

#### Figure 4. Application Criteria Required for Project Selection

**Probability of success**—What are the necessary components to support the proposed project (consideration for historical and proposed land use, as well as existence of appropriate hydrology, soils, geography, etc.)? What is planned for long-term maintenance and how will the maintenance efforts be funded?

**Project significance**—What are the benefits to wildlife species? What are the benefits to the habitat in terms of acreage and location in relation to other similar habitat types?

**Project readiness**—What steps will be taken immediately following the award of funds and what is the applicant's method for estimating costs (cost-effectiveness)?

**Other funding sources**—What additional monetary and in-kind services (donated labor, volunteer efforts, technical expertise) are already committed to the project?

Source: Wildlife Conservation Board Habitat Restoration Application

- *Applications and project merit reviews are not adequately documented.* Several project files reviewed did not include applications or had incomplete applications. For project files with completed applications, there was no indication of how it was reviewed to ensure criteria was met. In contrast, the Board's Riparian Habitat Conservation Program used a scoring worksheet to document its evaluation of how applications met program criteria. Using similar or other comparable documentation would allow the Board to provide a clear basis for project selection.
- *Pre-award site visits are not adequately documented making it difficult to determine if the required visits were performed.* In the majority of projects reviewed, site visit documentation is limited to photographs of projects. The intent of site visits is to determine a project's needs, components, and budget prior to awarding grant funds. Pre-award site visits also assist in conveying the program manager's assessment of the project and allows them to address any issues identified. Other state agencies use

<sup>5</sup> The Board's projects must comply with the CEQA pursuant to Public Resources Code Section 21000.

<sup>6</sup> Total number of restoration and development projects reviewed was 22; the amount does not include five projects awarded by the San Joaquin River Conservancy (SJRC) because the SRJC is responsible for ensuring the completion of grant applications.

checklists or logs to document site visit details such as the date of the site visit, location, items observed, and disposition of the site.

- *Project scientific basis is not adequately documented.* The Board requires a memo of support from Fish and Game because they possess the expertise to assess scientific components of a proposed project. However, the memo does not include or reference the related reviews or biological assessments. In addition, as noted above, project files do not always contain completed applications that specify the required “significance” and “success” criteria. As a result, additional inquiries of Board staff as well as internet research were conducted during the audit to identify a project’s scientific basis. For two projects, information could only be found referenced in the Board Members’ meeting agenda at the time a request for funding was made. The specific scientific basis should be included or referenced in the projects application and in the Fish and Game support memo.
- *Evidence of CEQA compliance is not documented.* For three projects, the Board could not demonstrate the work performed to ensure projects complied with CEQA; two projects were in progress and one project was completed as of the audit date. Although majority of the other project files reviewed lacked CEQA compliance documentation, program managers obtained evidence of filing from the Office of Planning and Research’s (OPR) State Clearinghouse and Planning Unit during the audit. In one case, the program manager contacted the grantee by e-mail to request the information. CEQA requires state and local agencies to identify significant environmental impacts in land use activities and to avoid or mitigate the impact, if possible, to protect the environment. Public agencies must follow the specified requirements pursuant to Public Resources Code Section 21000. As a lead or responsible agency<sup>7</sup>, the Board is required to ensure the project is in compliance with CEQA before construction or restoration work commences.

According to the Board, it developed new CEQA policies and procedures in January 2008 and began providing training to staff. With added controls and documentation, the Board can better demonstrate compliance with CEQA requirements.

In general, the Board states that it works closely with its applicants to evaluate applications and ensure key application requirements (including required scientific basis and CEQA) are obtained prior to recommending a project to the Board Members for funding approval. According to the Board, the pre-award activities are documented in the project database. However, details of application reviews entered in the database, including records of monthly meetings held by management and staff to discuss project recommendation decisions, are later overwritten with current project status information. Therefore, evidence of a project’s merit review could only be found in the Board’s meeting agenda when the funding request is made.

The purpose of a merit review is to provide an independent assessment of the technical and scientific merits of an application or proposal. Maintaining documentation of its application review (e.g., in a database or project files) would not only allow the Board to better administer projects, but also provide a clear basis for selecting projects.

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<sup>7</sup> As defined by CEQA, a lead agency is required to determine if the project is exempt or not and prepare appropriate documentation. The responsible agency reviews the documentation, develops findings, and prepares the notice of determination, if in concurrence.

## Recommendation

Consistently apply established awarding policies and document awarding activities including, but not limited to:

- Obtain completed applications or proposals for all potential projects.
- Document and maintain merit review activities, such as scoring worksheets or other documentation form, to clearly indicate how a project met the program's established awarding criteria.
- Include or reference the proposed project's scientific basis in either the project's application and/or in the Fish and Game support memo.
- Document and maintain evidence of CEQA compliance.

## Observation 3: Oversight of Habitat Restoration and Development Programs Could Be Improved

Project monitoring is not adequately documented and monitoring policies could be improved. Project monitoring ensures project objectives are progressing according to the project scope and timeline, and grant recipients are reimbursed for budgeted and allowable costs only. Upon completion of projects, the Board completes final closeout procedures to determine if all grant agreement requirements are completed prior to release of retention and final payment. Subsequently, projects are monitored to ensure the project is adequately maintained as intended in the grant's management plan.

However, documentation was not available in the project files or project database. Specifically, projects reviewed met one or more of the following conditions:

- *Required progress reports and source documentation are either not submitted or do not provide sufficient detail to identify completed work, support claimed costs, and ensure costs are within the grant term.* Grant agreements require reimbursement claims to be itemized according to budget categories, include supporting documents, and include progress/status reports; however, the Board does not consistently enforce these provisions. Additionally, some grant agreements lack detailed budgets with clear scopes of work, which prohibits effective project monitoring.
- *In-progress site visits are not adequately documented.* Site visits are performed to confirm project progress, verify costs incurred, and identify key risk issues to be resolved, especially for construction/development type projects<sup>8</sup>. The Board claims site visits are conducted by Board staff and are, at times, coordinated with other state agencies. However, site visit documentation is not maintained. Instead, the Board provided some travel expense claims and evidence of program managers certifying reimbursement invoices to indicate site visits occurred.

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<sup>8</sup> Internal Auditor magazine's article, "Building Controls into Capital Construction, (June 2002)" noted that based on a Construction Industry Institute's survey, about one out of every three projects is over budget or behind schedule. In the same article, the Internal Auditor concluded that "project controls are necessary to ensure that the underlying cost and schedule data are sufficient and reliable; the on-site construction status is observed and documented; and the architects, engineers, and contractors address technical issues." The article recommended this type of oversight even if a project management firm was retained to oversee or monitor the construction project.



- *Required final closeout reports and final site inspections are not adequately documented.* Grant agreements require grantee final close-out reports. The Board also requires a final site inspection certificate for its files and a final close-out memo to Fish and Game notifying them of the project completion. However, for five of eleven closed projects reviewed, grantees did not submit a final report and results of the Board's final inspections were not documented. Although the Board prepares a close-out memo to Fish and Game, documentation is inconsistent. In one instance, the memo refers to the attached photos of the "completed projects"; however upon review, the photos were of previously completed projects during a separate grant two to three years prior. No pre or post photos were included for the currently closed projects.
- *Project database does not maintain historical data.* According to the Board, program managers hold monthly status meetings with management to provide project status updates. Updates for each project are entered into the project status database; however, as noted earlier in this report, historical information is not maintained in the database.
- *Post-closure site visits are not performed.* In some instances, the Board may rely on other state agencies (e.g. Fish and Game) working in the area to visit the project site. However, there is no documentation of these visits to indicate the condition of the sites. The Board's current policy requires site visits to ensure grant compliance once during each three-year period, with exception of state-owned projects<sup>9</sup>. Once a project has been closed, the post-monitoring requirement is vital to ensure the project is being adequately maintained as specified in the grant's management plan. For Public Access projects, post-monitoring generally lasts 25 years from the date of closing due to a lease between the state and the local agency.

In contrast, the Board has a Contracts and Grants Coordinator (coordinator) that monitors federally-funded public access projects, as well as a few of the bond-funded public access projects. For each site visit, the coordinator describes the site's current condition, how the site is being used by the public, site changes and if they are in compliance with the grant agreement, and what corrective actions have been taken to correct problems identified in the last visit. This information is entered into the Board's monitoring database. When problems are identified, the Board sends a letter to the party responsible for maintenance of the site informing them of the problem identified and requesting corrective action.

By further developing and implementing monitoring procedures to address conditions noted above, the Board's project oversight can be improved.

## Recommendations

- Monitor projects to ensure they stay within scope and cost and document monitoring activities.
- Maintain historical data in the project status database.
- Implement and follow established post-closure monitoring policies and document related activities to ensure projects are maintained as specified in the grant agreement.

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<sup>9</sup> Non-state entities may be awarded bond funds to perform restoration or development work on state-owned property; however, the respective state agencies will assume monitoring of the property.

## Wildlife Conservation Board's Programs

Program Name	Program Purpose	Core Area	
		Acquisition-Related	Restoration/Development
<b>Land Acquisition</b>	The program is for the purchase of land and waters suitable for recreation purposes and the preservation, protection, and restoration of wildlife habitat.	✓	
<b>Forest Conservation</b>	The purpose of the program is to promote the ecological integrity and economic stability of California's diverse native forests for all their public benefits through forest conservation, preservation, and restoration of productive managed forest lands, forest reserve areas, redwood forests and other forest types, including the conservation of water resources and natural habitats for native fish, wildlife, and plants found on these lands.	✓	
<b>Natural Heritage Preservation Tax Credit</b>	A private landowner may donate qualified lands, conservation easements, or water rights for conservation purposes including protecting wildlife habitat, parks and open space, archaeological resources, agricultural land, and water. Therefore, no actual purchase of land takes place. However, the program provides a tax credit to eligible donors.	✓	
<b>California Riparian Habitat Conservation</b>	The purpose of the program is to protect, preserve, and restore riparian habitats throughout the state, which is a cooperative effort with several statewide and regional conservation programs and initiatives, including the California Riparian Habitat Joint Venture.	✓	✓
<b>Habitat Enhancement and Restoration</b>	This is a general program that considers projects including the restorations of fisheries, wetlands outside the Central Valley, native grasslands, and forests.	✓	✓
<b>Inland Wetlands Conservation</b>	This program follows the mission of the Central Valley Joint Venture, which is to work collaboratively through diverse partnerships to protect, restore, and enhance wetlands and associated habitats for waterfowl, shorebirds, water birds, and riparian songbirds.	✓	✓
<b>Oak Woodlands Conservation</b>	The program's mission is to conserve the integrity and diversity of oak woodlands across California's working landscapes through incentives and education. Projects are primarily for the acquisition of real property or rights in real property, with few projects for the development of management plans and public education and outreach.	✓	✓
<b>Rangeland, Grazing Land, and Grassland Protection</b>	The program's purpose is to accomplish the following through conservation easements: <ul style="list-style-type: none"> <li>• Prevent the conversion of rangeland, grazing land, and grassland to nonagricultural uses.</li> <li>• Protect long-term sustainability of livestock grazing.</li> <li>• Ensure continued wildlife, water quality, watershed, and open-space benefits from livestock grazing.</li> </ul>	✓	✓
<b>Public Access</b>	This program is for the development of facilities that provide public access and use of public lands for wildlife-related recreational activities such as hunting, fishing, and wildlife viewing.		✓





March 13, 2009

Mr. David Botelho, Chief  
Office of State Audits and Evaluations  
Department of Finance  
300 Capitol Mall, Suite 801  
Sacramento, CA 95814

Dear Mr. Botelho:

Thank for the opportunity to respond to Audit Report No. 080540060 dated December 2008 pertaining to the Wildlife Conservation Board's (WCB) management of Propositions 12, 13, 40, and 50 bond funds. We appreciate the audit found that the WCB awarded and expended bond funds in compliance with applicable legal requirements as we take pride in our commitment to responsibly manage the Board's associated bond fund resources.

Three observations are identified and presented in the Audit Report, as follows:  
1) monitoring of acquisitions could be improved; 2) established procedures are inconsistently applied and project reviews are not adequately documented, and;  
3) oversight of habitat restoration and development programs could be improved.  
Our response to these observations and recommendations are outlined below.

### **Acquisition Related Programs**

#### **Observation 1: Monitoring of Acquisitions Could be Improved**

- *Not all program guidelines have been updated.*

The WCB agrees and will take action to update its program guidelines and Web site. Among many changes, the Land Acquisition Program will provide a link to the 2006 Minimum Requirements for Monitoring Grants and Conservation Easements. However, since the adoption of the monitoring policies, the WCB's grant agreement documents have contained the monitoring protocols and minimum standards for baseline condition reports.

The WCB, at its August, 2006 meeting, formally adopted the 2006 Minimum Requirements for Monitoring Grants and Conservation Easements to federal, state and local agencies, and 501 (c)(3) non-profit organizations. Since 2006, the monitoring requirements have been applied consistently to grant projects under the Land Acquisition Program. These comprise projects identified in a Land Acquisition Evaluation proposal or a Conceptual Area Protection Plan approved by the Department of Fish and Game (DFG), the Oak Woodlands Conservation Program, the Rangeland, Grazing Land and Grassland Protection Program, and the recently adopted Forest Conservation Program.

- *Older grant agreements do not address the Board's recently established monitoring policies.*

In conformance with the 2006 monitoring requirements, language in the grant agreements for the acquisition of fee interest and conservation easement provide the state with the right to access the property, not less than once in any period of three calendar years, to assess compliance with the terms, covenants and conditions of the grant agreements. The grantee is also required to perform perpetual stewardship to ensure that the real property is preserved for its conservation values consistent with the conservation easement. The grantee agrees to monitor the property at least annually to assess the condition of the property, and to provide a detailed monitoring report to the WCB within 90 days following its monitoring activities.

Concurrent with adoption of the 2006 monitoring requirements, the WCB established a new position to implement the Board's monitoring responsibilities and establish the Monitoring Program. Under the program, the WCB is reviewing annual monitoring reports provided by grantees, has established annual field schedules for monitoring by the WCB, and has completed site visits for several grants. Monitoring Field Inspection Reports are completed by the WCB and are maintained in the files.

As the audit report accurately notes, grant agreements issued prior to 2006 do not include the new monitoring provisions. Some of the earlier grants provide for annual monitoring by the grantee, some provide for compliance monitoring by the WCB and some provide for no oversight at all. Under the Monitoring Program, the WCB has identified all pre-2006 grants and the monitoring requirements included in those grants. The WCB has requested monitoring reports where appropriate, established field schedules for those grants allowing compliance monitoring, and has completed site visits to some properties. In those instances where grants do not require monitoring by the grantee or compliance monitoring by the WCB, we have written letters to grantees requesting an opportunity to accompany grantees during their monitoring activities or access to the property allowing the Board to perform compliance monitoring. These requests to grantees have been well received and the WCB has completed site visits to some of these earlier grant properties. We will continue to work with pre-2006 grant recipients to diligently work towards full implementation as staffing and opportunity allow.

- *Review of grantees' ability for long-term monitoring is not performed.*

The WCB agrees that it has not established specific criteria to require that grantees report their fiscal capacity prior to awarding grant funds or as part of its project monitoring process. Most land trusts, if not all, that the WCB works with have impeccable reputations and pride themselves on their ability to effectively manage the property for its intended use. While it is possible for a land trust to take on more than they may be able to manage, we currently have appropriate safeguards in place through our grant agreements to protect the state's investment should long-term monitoring not be performed, such as the ability to seek specific performance or require grantee to transfer its interest acquired using our grant funding.

Additionally, the WCB is cognizant of the demand for increasing accountability from nonprofit organizations and government, including land trusts. Land trusts in California, through membership in the California Council of Land Trusts, are joining together to benefit from individuals or firms that provide services relevant to land conservation in a wide range of disciplines, such as attorneys, financial planners, appraisers, and consultants. On a national front, a number of land trusts have successfully completed the accreditation program by the Land Trust Accreditation Commission, an independent program of the Land Trust Alliance to provide the assurance of quality and permanence of land protection. The Alliance publishes Land Trust Standards and Practices and provides financial and administrative support to the Commission. It has established an endowment to help ensure the success of the accreditation program and keep it affordable for land trusts of all sizes to participate.

### **Other Issue Identified**

The audit review involved fixed asset reporting to determine whether bond funded expenditures were accurately recorded and reported. The report correctly identified the DFG as the responsible entity for recording and reporting these fixed assets. Assets are reported in the year-end financial statements and the DFG performs the accounting function for the WCB. As the WCB is on the front end of the process, it is working toward future enhancements to its Project Management Data System (PMDS) so that fixed asset reporting information may be generated and shared from our database.

### **Restoration and Development Programs**

In regards to this section of the audit report, the WCB would like to address the overall audit process as it relates to our Restoration and Development programs. There appeared to be some confusion during the audit about the WCB's non-competitive grant program processes. We provide the following information for clarification.

The WCB's restoration, enhancement and public access programs allow for submission of project applications on a continuous basis. Consequently, in the audit, the reconciliation and comparison of the WCB's non-competitive grant program guidelines to other state departments' competitive grant program guidelines may not be appropriate. While there may be some shared aspects, there are very distinct differences between processes, especially in terms of how projects are selected. Under a competitive process, projects are scored and selections are made in a defined and linear manner. However, under a non-competitive process (as is used for WCB's programs), projects are evaluated individually and selections are merit-based. A continuous application process is used, fewer timing constraints in terms of evaluation and submission of materials exist, and more interaction and dialogue occurs between project proponents and the WCB leading up to approval of the project.

For example, nearly all project proponents contact the WCB prior to submittal of an application to discuss the merit of and potential funding available for a project. This approach has proven to be an efficient way to vet projects, for both project proponents and the WCB staff. During this review there are generally three outcomes: 1) the project is not a fundable project and the project proponents are advised to seek other or

more appropriate funding sources; 2) the project needs to be modified prior to submission of an application, and the project proponent are advised as to what changes are needed; or 3) the project is fundable. After the pre-consultation, the proposal and application may be submitted for consideration. These pre-consultation contacts are not required to be documented but they are very beneficial in helping the WCB program manager better understand and evaluate the project. At the same time the project proponents are instructed to consult with the DFG for its review and support. This also provides the WCB with additional project feedback and assurances that the biological merits have been considered by the DFG.

**Observation 2: Established Procedures are Inconsistently Applied and Project Reviews are Not Adequately Documented**

- *Applications and project merit reviews are not adequately documented.*

For all restoration and enhancement projects, the criteria as referenced and shown in Figure 4 of the report are consistently provided as part of the application process. The same information is also incorporated into a number of other WCB documents including grant agreements, management plans, work plans, budgets, letters of support, staff analysis, and WCB agenda items. It would be difficult if not impossible to prepare these documents and present a project before the WCB without an understanding and thorough review of the topics delineated in Figure 4. However, we have recently improved the documentation of these reviews through the expansion of our PMDS and will continue to make adjustments as needed.

- *Pre-award site visits are not adequately documented making it difficult to determine if the required visits were performed.*

The WCB has always conducted pre-award site visits but acknowledges better documentation of pre-award site visits is warranted. When scoring worksheets are appropriate, the WCB has and will continue to utilize and keep these documents on file. The WCB will also continue to develop and utilize its PMDS to better track existing project proposal reviews, approval processes and site visits.

- *Project scientific basis is not adequately documented.*

While the audit report articulates the WCB's requirement for a memo of support from the DFG, it also infers that the memo does not include or reference specific studies or implementation plans. The WCB has never requested "specific studies or implementation plans" be addressed in the DFG memo. What the WCB does request is a review and biological assessment of the project and we conclude that the receipt of a support letter, which routinely includes a representation of the biological merits of a project is sufficient. In addition, the WCB will continue to provide information about a particular project's scientific merits in our agenda items and meeting minutes.

- *Evidence of CEQA compliance is not documented.*

The WCB agrees that compliance with CEQA should be appropriately done and adequately documented. As indicated in the report, the WCB amended its procedures to fully comply with current CEQA law. Also, the WCB recently hired staff counsel with expertise in CEQA.

### **Observation 3: Oversight of Habitat Restoration and Development Programs Could be Improved**

- *Required progress reports and source documentation are either not submitted or do not provide sufficient detail to identify completed work, support claimed cost, and to ensure costs are within the grant term.*

The WCB agrees with the importance of monitoring ongoing projects to ensure they stay within scope and budget, and will continue to seek ways to improve on this process through improved documentation, practices, management tools and systems. The WCB implemented changes by developing an invoice template and requiring progress reports to accompany invoices. The WCB's current practices address the concerns of the audit. Although the report expressed some concern regarding approval of invoices, it should be noted that no inappropriate reimbursements were made or found during the audit. More importantly, the projects reviewed were all delivered based on the scope, budget and the terms approved by the WCB using the then current project management, accounting and invoicing processes.

- *In-progress site visits are not adequately documented.*

The WCB staff, as time and resources allow, conducts in-progress site visits. As indicated in the report, the WCB also coordinates with DFG regional staff to conduct project inspections. In some cases projects are located on DFG owned lands and they provide management oversight. These site inspections coupled with frequent phone calls and progress reports (provided with each invoice) are used to track the project status. The outcomes of these project updates are shared during monthly WCB status meetings and are made a part of the PMDS.

Although staff would prefer to make more site visits, due to the current economic climate and the need to minimize travel costs, the WCB will continue to use DFG regional staff when appropriate. Also, staff no longer delete and overwrite project status updates in the PMDS, but now keep chronological track of project progress and management.

- *Required final closeout reports and final site inspections are not adequately documented.*

The WCB requires a final inspection and a final report on all capital improvement projects before the final invoices are approved. This information is tracked in the PMDS and transmitted to the Director of DFG in a closing memo. Previously, there had been exceptions made regarding final reports on DFG owned lands, and we recognize that



had the file been appropriately documented this would not have been identified as an issue. However, this practice has been stopped. We would also like to point out final inspections have always been, and will continue to be, documented on the final invoice and the closing memo to the Director of DFG.

- *Project database does not maintain historical data.*

The WCB agrees with the audit report's recommendation to maintain historical data in the PMDS. Changes have already been implemented, with additional refinements and improvements planned. The issue pertaining to inclusion of historical data has now been rectified.

- *Post-closure site visits are not performed.*

Contrary to the inference that post-closure site visits do not occur, staff does periodically conduct site visits. Often the executive staff accompany project managers as a way to spot check compliance with grant terms and assess project results as a means to evaluate similar future projects. We recognize that appropriate file documentation is necessary to substantiate post closure monitoring and we will continue to develop and utilize our monitoring database to better track the results of post-closure site visits.

We appreciate the opportunity to respond to this report and look forward to our continued working relationship with Department of Finance staff.

Sincerely,

Original signed by:

John P. Donnelly  
Executive Director

cc: Ms. Cindy Gustafson, President, Fish and Game Commission  
Mr. Donald Koch, Director, Department of Fish and Game  
Ms. Karen Finn, Program Budget Manager, Department of Finance  
Mr. Patrick Kemp, Assistant Secretary, Natural Resources Agency  
Mr. Bryan Cash, Deputy Assistant Secretary, Natural Resources Agency  
Ms. Julie Alvis, Deputy Assistant Secretary, Natural Resources Agency  
Mr. Dave Means, Assistant Executive Director, Wildlife Conservation Board  
Ms. Debra Townsend, Assistant Executive Director, Wildlife Conservation Board  
Ms. Roxanne Woodward, Budget Officer, Wildlife Conservation Board  
Ms. Helen Carriker, Deputy Director, Department of Fish and Game  
Mr. Brian Kwake, Chief, Audits Branch, Department of Fish and Game  
Mr. Will Fong, Chief, Accounting Services Branch, Department of Fish and Game

## EVALUATION OF RESPONSE

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The Wildlife Conservation Board's (Board's) response to the draft audit report has been reviewed and incorporated into the final report. We acknowledge the Board's willingness to implement the recommendations made and its commitment to effectively manage the bond funds.

Based on our review of the Board's response, we are providing the following clarification:

### ***Acquisition Related Programs***

#### **Observation 1: Monitoring of Acquisitions Could be Improved**

- Review of grantees' ability for long-term monitoring is not performed.

While the Board has safeguards in place if long-term monitoring is not performed, the review of a grantee's stewardship funds is a pro-active measure. The Land Trust Alliance's standards and practices recommends land trusts to have a secure and lasting source of funds to cover land stewardship and enforcement costs and to periodically evaluate the adequacy of these funds. As of February 2009, the Land Trust Accreditation Commission's accreditation program (piloted in 2007), accredited 39 land trusts nationwide—four of which are California land trusts<sup>10</sup>. Although the Board's use of these services was not demonstrated at the time of the audit, the Board's response indicates its acknowledgment and continued efforts to increase accountability by considering all available land trust standards and practices.

### ***Restoration Related Programs***

For clarification purposes, the audit's objectives included determining whether the Board awarded and expended bond funds in compliance with applicable legal requirements and established criteria. Established criteria include the Board's internal policies and procedures for bond projects based on its *non-competitive* awarding process. However, as noted in Observation 2, the Board did not consistently apply its established *non-competitive* procedures, and its merit-based application reviews were not adequately documented. The audit report references the Board's Riparian Habitat Conservation program and other state entities merely to provide specific examples of other business practices.

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<sup>10</sup> "Accreditation from A to Z: Keys to Success", California Council of Land Trusts (CCLT), CCLT Annual Conference, Sacramento, California (February 24, 2009).

## **Observation 2: Established Procedures are Inconsistently Applied and Project Reviews are Not Adequately Documented**

- *Project scientific basis is not adequately documented.*

The Board states that it has never requested “specific studies or implementation plans,” but does request a “review and biological assessment.” We have corrected the audit report on page 11 to reflect proper terminology.

The Board further states the support letter from the Department of Fish and Game (Fish and Game) is sufficient because it includes a “representation of the biological merits.” However, based on our review, the support memo only contains Fish and Game’s description of the project’s potential goals. The memo makes no reference to the project’s biological basis. Because the biological basis was also lacking in the project files, our recommendation is to include or reference a project’s biological review or assessment in the project’s application and Fish and Game support memo.

## **Observation 3: Oversight of Habitat Restoration and Development Programs Could Be Improved**

We commend the Board for taking immediate action to address the audit finding. The Board states that “although the report expressed some concern regarding approval of invoices, it should be noted that no inappropriate reimbursements were made or found during the audit.” As noted in the Scope section of this report, one of the audit objectives was to determine if the Board had adequate project monitoring processes in place. Based on a review of sampled project files, we questioned how the Board determined cost eligibility for reimbursement requests that lacked progress reports and supporting documentation. The documents are required by the Board’s grant agreements so project managers can review prior to payment.